

August 2, 2018

To Whom It May Concern,

Listed Company's Name:	Sanyo Special Steel Co., Ltd.
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(Code Number:	5481, First Section of the TSE)
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**Notice on Issuance of New Shares Through a Third-Party Allotment to Nippon Steel & Sumitomo Metal Corporation and Change in Parent Company**

Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel") announced that its Board of Directors approved a resolution today to offer shares to be issued by means of a third-party allotment (the "Capital Increase through a Third-Party Allotment of Shares") underwritten by Nippon Steel & Sumitomo Metal Corporation ("NSSMC").

As announced in the press release titled "Notice Regarding Execution of an Agreement to Make Sanyo Special Steel Co., Ltd. a Subsidiary of Nippon Steel & Sumitomo Metal Corporation and Other Matters" issued jointly by Sanyo Special Steel and NSSMC, Sanyo Special Steel and NSSMC executed an agreement (the "Agreement on the Conversion into a Subsidiary and Other Matters") today based on the resolutions approved by their respective Boards of Directors. In the future, the two companies intend to consummate the following transactions on March 28, 2019 based on the Agreement on the Conversion into a Subsidiary and Other Matters.

- 1) Capital Increase through a Third-Party Allotment of Shares. As a result, NSSMC's ratio of voting rights ownership in Sanyo Special Steel will increase to 51.5% from 15.3%, the ratio before the Capital Increase through a Third-Party Allotment of Shares (based on the register of shareholders of Sanyo Special Steel as of March 31, 2018; including indirect ownership by consolidated subsidiaries of NSSMC), thereby making Sanyo Special Steel a consolidated subsidiary of NSSMC. (Conversion of Sanyo Special Steel into a subsidiary by NSSMC is referred to as the "Conversion into a Subsidiary.")
- 2) Transfer of all the outstanding shares of Triako Holdco AB (c/o Ovako AB, Box 1721, 111 87 Stockholm, Sweden), which is the wholly-owning parent company of Ovako AB (Kungsträdgårdsgatan 10, Stockholm, Sweden. Representative: Marcus Hedblom. "Ovako") ("shares of Ovako") to Sanyo Special Steel from NSSMC (the "Transfer of Shares"; together with the Conversion into a Subsidiary, the "Conversion into a Subsidiary, etc.")

For details of the Agreement on the Conversion into a Subsidiary and Other Matters, please refer to "2. Purpose and Reasons for the Offering (1) Purpose, etc. of the Conversion into a Subsidiary, etc. F) Details of the Agreement on the Conversion into a Subsidiary and Other Matters" under "I. Issuance of New Shares through a Third-Party Allotment" below. In addition, the Transfer of Shares has been disclosed by Sanyo Special Steel today in the "Notice Regarding Acquisition of Ovako (Making It a Subsidiary)."

As stated in the Note of “1. Outline of the Offering” under “I. Issuance of New Shares through a Third-Party Allotment” below, conditions for the Conversion into a Subsidiary, etc. include obtaining approval from competition authorities in Japan and overseas regarding the Conversion into a Subsidiary. Therefore, the timing of the Capital Increase through a Third-Party Allotment of Shares may vary depending on the timing of obtaining such approval.

In addition, the Capital Increase through a Third-Party Allotment of Shares is subject to the condition that Sanyo Special Steel submits a proposal regarding approval of a subscription agreement on offered shares concerning the Capital Increase through a Third-Party Allotment of Shares (the “Subscription Agreement on Offered Shares”) at the extraordinary general shareholders’ meeting of Sanyo Special Steel scheduled to be held in February 2019 (the “General Shareholders’ Meeting”) and that it obtains approval of its shareholders for the Subscription Agreement on Offered Shares. Article 206-2, Paragraph 4 of the Companies Act stipulates the need for approval by the general shareholders’ meeting if a shareholder(s) holding one-tenth or more of the votes of all shareholders provides notice that the shareholder is opposed to a subscription of offered shares by a special subscriber. However, in view of the importance of the Capital Increase through a Third-Party Allotment of Shares, Sanyo Special Steel considers it appropriate to obtain shareholders’ approval of the Subscription Agreement on Offered Shares concerning the Capital Increase through a Third-Party Allotment of Shares regardless of such notice of objection and intends to submit the proposal to the General Shareholders’ Meeting.

The Conversion into a Subsidiary does not seek to suspend the listing of the shares of Sanyo Special Steel, and the policy is to maintain the listing of Sanyo Special Steel on the First Section of the Tokyo Stock Exchange (the “TSE”).

## I. Issuance of New Shares through a Third-Party Allotment

### 1. Outline of the Offering

(1)	Payment date	From December 1, 2018 to November 30, 2019 (Note)
(2)	Number of shares to be issued	24,012,500 shares of common stock
(3)	Issue price	2,800 yen per share (the “Amount to be Paid”)
(4)	Amount of funds to be raised	67,235,000,000 yen
(5)	Method of offering or allotment (“Allottee”)	Third-party allotment (NSSMC: 24,012,500 shares)
(6)	Other	Conditions for the Capital Increase through a Third-Party Allotment of Shares include the fact that a securities registration statement filed pursuant to the Financial Instruments and Exchange Act has taken effect, obtaining approval from competition authorities in Japan and overseas regarding the Conversion into a Subsidiary, and obtaining approval at the General Shareholders’ Meeting of Sanyo Special Steel. After the securities registration statement becomes effective, Sanyo Special Steel and NSSMC will execute the Subscription Agreement on Offered Shares, and NSSMC will subscribe for the shares offered.

Note: With regard to the Capital Increase through a Third-Party Allotment of Shares, Sanyo Special Steel has

resolved to fix the period from December 1, 2018 to November 30, 2019 as the payment period, as one of the subscription requirements pursuant to the Companies Act, and such period for the payment is indicated as the payment date. The payment date is indicated as such because, for implementing payment for the Capital Increase through a Third-Party Allotment of Shares, it is impossible to fix the period necessary for obtaining approval from competition authorities in Japan and overseas as of today, while the period for the payment will be decided taking into consideration the period necessary for obtaining such approval. The payment for the Capital Increase through a Third-Party Allotment of Shares is scheduled to be made after obtaining such approval and after the standby period (if any). The planned date of the General Shareholders' Meeting is set in February 2019 within the period of the Capital Increase through Third-Party Allotment of Shares, and this date will be determined as soon as it becomes clear when such approval from competition authorities in Japan and overseas will be obtained and when the standby period will end. As of today, NSSMC and Sanyo Special Steel plan to conduct the Capital Increase through a Third-Party Allotment of Shares on March 28, 2019 under the Agreement on the Conversion into a Subsidiary and Other Matters.

## 2. Purpose of and Reasons for the Offering

### (1) Purpose, etc. of the Conversion into a Subsidiary, etc.

#### A) Operating Environment for the Special Steel Business

While a steady increase in demand is expected over the long term in the global steel market, the steel business is facing changes in social and industrial structures, including a decline in Japan's population, a trend toward protectionism on a global level, an acceleration of local material procurement by customers associated with the globalization of their businesses, growing needs for lighter and stronger vehicles, a shift to electric and other new energy vehicles, an increased use of renewable energy, and the use of robots in the manufacturing industry and service industry.

Against this backdrop, special steel products, which are the product lines of NSSMC and Sanyo Special Steel, are used as materials in critical components in various industries such as automobile, industrial equipment, wind power generation and robots; and it is expected that demand for these products will continue to grow steadily, with needs for high-quality special steel products further increasing. On the other hand, as competition in the special steel market becomes more intense in Japan and overseas, both companies recognize that they need to strengthen their technological capabilities, product development capabilities and the cost competitiveness of their special steel businesses, and enhance and expand the advantages of their businesses over competitors in Japan and overseas.

#### B) Efforts by the Two Companies to Date

NSSMC was formed in October 2012 through a business integration of Nippon Steel Corporation (established in 1950) and Sumitomo Metal Industries, Ltd. (established in 1949). Since its formation, NSSMC has strived to become "the best steel maker with world-leading capabilities," and has taken measures to reduce costs by combining the technologies of the two former companies and improving efficiency as a result of the business integration, to integrate facilities, to invest in downstream processes overseas, and to reorganize its group companies. Through these measures, NSSMC has constantly generated

synergistic effects. In particular, with the goal of further improving quality support capabilities and production capabilities for the special steel business, NSSMC plans to launch a state-of-the-art continuous casting facilities for bars and wire rods at Yawata Works in FY 2019. In addition, Ovako, which manufactures and sells special steel mainly in the European market, with global top level technology for the production of high-cleanliness steel for bearing steel products and among the largest production capabilities in that region, was made into a wholly-owned subsidiary in June 2018 as one of the measures for strengthening and expanding the global business under the 2020 Mid-Term Management Plan which was formulated and released in March 2018. Making Ovako a wholly-owned subsidiary has enabled NSSMC to further strengthen technological capabilities and product development capabilities of its special steel business and expand production and sales bases in Europe.

Meanwhile, Sanyo Special Steel was established in 1935 with a corporate philosophy of “confidence-based management” aimed to establish the “confidence of society,” “confidence of customers,” and “confidence among people.” Based on this corporate philosophy, it has continued to grow as one of the leading special steel manufacturers in Japan in line with its mission to contribute to the further development of society through the provision of “steel you can count on” that can gain a high level of confidence from the market in all aspects including development, quality, and stable supply. In addition, Sanyo Special Steel released the 10th Medium-Term Business Plan “Sanyo Global Action 2019” in April 2017 to establish a strong corporate structure by strengthening the business foundation, to further pursue technological superiority by enhancing R&D and quality competitiveness, and to promote “Sanyo Special Steel - the Confident Choice” as a global brand in pursuit of continuous growth. Sanyo Special Steel’s efforts have steadily produced results, such as the development of the Sanyo Ultra Refining Process (“SURP”) which was announced in July 2018, in its aim of enhancing quality competitiveness centering on bearing steel.

In February 2006, the two companies agreed to conduct a business alliance with the aim of the mutual benefits of production entrustment partnership initiatives in response to fluctuating demands for steel and intensifying global competition. Based on this agreement, NSSMC acquired additional shares of Sanyo Special Steel in June 2006 and converted it into an equity-method affiliate. The two companies have worked to strengthen mutual competitiveness through the trading of steel materials, raw materials, and other materials, etc. while developing businesses based on this partnership relationship.

### C) Vision Targeted by the Two Companies

Against the backdrop above, the two companies believe that it is necessary for the three companies (including Ovako) to develop structures for global business expansion by combining their business foundations, technical capabilities, product development capabilities, and cost competitiveness, and to strengthen capabilities for supporting high-quality special steel products in response to the globalization of customers in Japan and overseas in the automobile and other fields as well as needs for high-quality special steel products, in a bid to pursue enhanced competitiveness of their respective special steel businesses over the medium- to long-term. As a measure to realize such goals, the two companies decided to convert Sanyo Special Steel into a consolidated subsidiary of NSSMC and also to make Ovako, which is a wholly-owned subsidiary of NSSMC, a wholly-owned subsidiary of Sanyo Special Steel.

Through these measures and the addition of Sanyo Special Steel to the NSSMC Group, NSSMC will forge ahead with the establishment of optimal production structure throughout the special steel field including Yawata Works and Muroran Works, which are its main production bases in Japan, and the reduction in costs for procurement of materials and equipment, etc., thereby further enhancing the NSSMC Group's strengths of technical capability and cost competitiveness.

Meanwhile, by becoming a member of the NSSMC, Sanyo Special Steel will establish a more stable management foundation for continuous growth and enhancement of corporate value over the medium- to long term while further reinforcing its competitiveness in special steel products in the global market, in particular in the bearing steel field, since this change will enable Sanyo Special Steel to integrate its business operations with Ovako, Europe's leading special steel manufacturer, thereby combining the two companies' common strengths of global top level technology for the production of high-cleanliness steel and mutually use of marketing, sales and logistics networks.

By realizing the Conversion into a Subsidiary, etc., NSSMC and Sanyo Special Steel will aim at strengthening the position of the NSSMC Group, including Sanyo Special Steel, as "the best steel maker with world-leading capabilities," and achieving sustainable growth and medium- to long-term enhanced corporate value.

#### D) Expected Synergies, etc.

It is expected that the following synergies will be created among NSSMC, Sanyo Special Steel, and Ovako through the Conversion into a Subsidiary, etc. Accordingly, Sanyo Special Steel will seek to achieve annually 5 billion yen or more in synergies, while the NSSMC Group will seek to generate annually around 10 billion yen in synergies, including those of Sanyo Special Steel. Further consideration of measures to realize and achieve these synergies will be pursued after approval is obtained from competition authorities in Japan and overseas.

##### <Examples of synergies>

###### 1) Pursuit of efficient production for the NSSMC Group as a whole

- Establishment of optimal production structure by region, achievement of high efficiency and stable production through the sharing of operational know-how
- Strengthening of overseas production bases and mutual use of logistics networks

###### 2) Strengthening of capability to respond to customer's needs

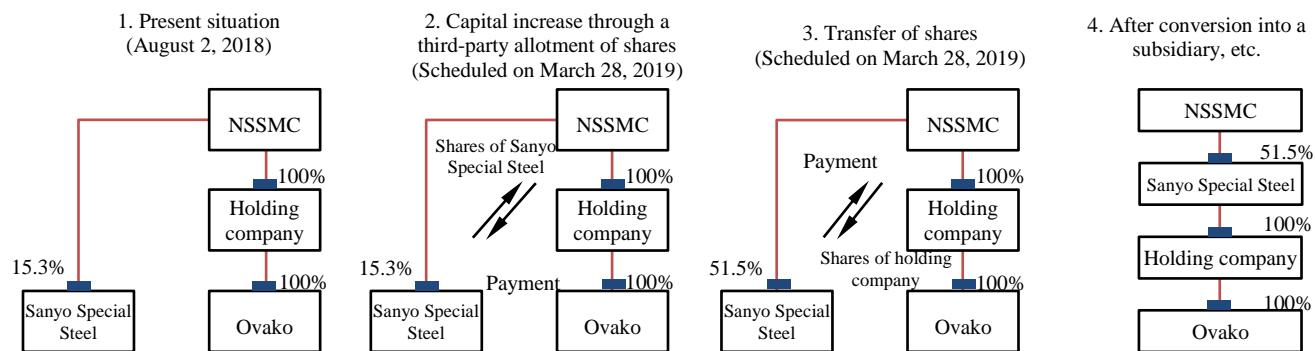
- Mutual use of marketing and sales networks of the three companies
- Strengthening of proposal capabilities through joint R&D

###### 3) Reduction in costs for procurement of materials and equipment, etc.

- Improvements in efficiency of raw materials transportation, optimization of procurement of auxiliary materials, fuel, etc.
- Streamlining through centralized purchasing of common materials and equipment

In addition to these synergies, performance results of Sanyo Special Steel are to be added to NSSMC's consolidated income figures, and those of Ovako are to be added to the consolidated income figures of Sanyo Special Steel.

#### E) Structural Chart of the Conversion into a Subsidiary, etc. (Note)



Note: Voting rights ownership ratios (%) indicated in the above chart are calculated on a consolidated basis.

#### F) Details of the Agreement on the Conversion into a Subsidiary and Other Matters

##### (Details of the Agreement on the Conversion into a Subsidiary and Other Matters)

NSSMC and Sanyo Special Steel executed the Agreement on the Conversion into a Subsidiary and Other Matters today based on the approval of resolutions of their respective Boards of Directors. The outline of the Agreement on the Conversion into a Subsidiary and Other Matters is described below.

##### 1) Purpose and Outline of the Agreement on the Conversion into a Subsidiary and Other Matters

NSSMC and Sanyo Special Steel have agreed to execute the Capital Increase through a Third-Party Allotment of Shares and the Transfer of Shares in response to the globalization of customers in Japan and overseas in the automobile and other fields as well as needs for high-quality special steel products, for the purpose of pursuing enhanced competitiveness of their respective special steel businesses over the medium to long term.

##### 2) Details of the Capital Increase through a Third-Party Allotment of Shares

Sanyo Special Steel, at the meeting of its Board of Directors to be held on the date of execution of the Agreement on the Conversion into a Subsidiary and Other Matters (August 2, 2018), decided to issue 24,012,500 Sanyo Special Steel shares (the "Offered Shares") underwritten by NSSMC in accordance with the subscription requirements below. NSSMC will make payment for the Offered Shares provided that the prescribed conditions are satisfied on the date of payment for the Capital Increase through a Third-Party Allotment of Shares (the "Payment Date"). Such conditions include the following: (a) Sanyo Special Steel has fulfilled legally and effectively all the necessary procedures required by the Companies Act, the

Financial Instruments and Exchange Act, and other laws and regulations for the issuance of the Offered Shares; (b) the Fair Trade Commission has notified NSSMC about the Capital Increase through a Third-Party Allotment of Shares that it will not issue an order based on Article 50 Paragraph 1 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade; and (c) notifications to competition authorities overseas have been submitted by both companies, the waiting period has expired or terminated early, their approvals have been secured, and other procedures required for the contemplated transaction based on antitrust law in jurisdictions other than Japan agreed by the two companies have been completed.

(1) Number of Offered Shares	24,012,500 shares	
(2) Amount to be paid	2,800 yen per share	
(3) Payment period	From December 1, 2018 to November 30, 2019	
(4) Matters concerning capital and capital reserves to be increased	(i) Capital	Amount equivalent to half the maximum amount of increase in stated capital calculated in accordance with the provisions in Article 14 Paragraph 1 of the Regulation on Accounting of Companies (Notwithstanding the foregoing, an amount less than 1,000 yen will be rounded up.)
	(ii) Capital reserves	Amount obtained by subtracting the amount of capital increase in (i) above from the maximum amount of increase in stated capital calculated in accordance with the provisions in Article 14 Paragraph 1 of the Regulation on Accounting of Companies
(5) Other	(i) The Capital Increase through a Third-Party Allotment of Shares shall be conducted by issuing new shares. (ii) If payment by NSSMC is made after the record date for the exercise of rights at Sanyo Special Steel's general shareholders' meeting to be held following the date of execution of this agreement and before the date of the said general shareholders' meeting, NSSMC can exercise voting rights of the new shares issued upon payment by NSSMC.	

### 3) Details of the Transfer of Shares

Subject to the execution of the Capital Increase through a Third-Party Allotment of Shares is executed, all the shares of Ovako held by NSSMC will be transferred to Sanyo Special Steel.

### (2) Reasons for conducting a large-scale Capital Increase through a Third-Party Allotment of Shares

As described in “3. Amount of Funds to be Procured, Use, and Scheduled Time of Expenditure (2) Specific use of funds to be procured,” although the purpose of the Capital Increase through a Third-Party Allotment of Shares is to procure the funds necessary for acquiring all of Ovako's shares, by becoming a consolidated subsidiary of NSSMC through the Capital Increase through a Third-Party Allotment of Shares, Sanyo Special Steel will be able to establish a more stable management foundation for sustainable growth and medium- to long-term enhancement

of corporate value. Sanyo Special Steel also wishes to maintain the sound financial standing that it presently enjoys in view of large-scale capital and other investments scheduled under the current medium-term business plan. In light of these circumstances, the two companies have concluded that the procurement of funds by way of a Capital Increase through a Third-Party Allotment of Shares is a more suitable method compared to other funding methods, including borrowing from banks, capital increase by public share offering, capital increase by allotment of shares to shareholders, and a combination of any of the foregoing.

The dilutive effect of the Capital Increase through a Third-Party Allotment of Shares and its effect on the existing shareholders are as described in “5. Reasonableness of the Issuance Conditions, etc. (2) Basis for the judgment that the number of shares to be issued and the extent of the dilutive effect are reasonable” below.

### (3) Opinions of the Corporate Auditors about allotment of Offered Shares to a special subscriber

Upon execution of the Capital Increase through a Third-Party Allotment of Shares, the number of voting rights held by NSSMC, which is the Allottee, and its consolidated subsidiaries will be 51.5% of the number of voting rights held by all the shareholders of Sanyo Special Steel (based on the register of shareholders of Sanyo Special Steel as of March 31, 2018; fractions after two decimal places are rounded) and NSSMC will be a special subscriber as specified in Article 206-2 Paragraph 1 of the Companies Act.

In this regard, two Corporate Auditors of Sanyo Special Steel expressed their opinions at the meeting of the Board of Directors held today that the allotment of Offered Shares to NSSMC, which is a special subscriber as specified in Article 206-2 Paragraph 1 of the Companies Act, complies with the law and is reasonable in view of the following:

1) From the viewpoint of establishing a structure that enables sustainable growth of Sanyo Special Steel and achieving medium- to long-term enhancement of corporate value and shareholder value, it is reasonable to make Ovako, which manufactures and sells special steel mainly in the European market and has among the largest production capabilities in the region, a wholly-owned subsidiary of Sanyo Special Steel by using the funds procured by the Capital Increase through a Third-Party Allotment of Shares, and for Sanyo Special Steel to become a consolidated subsidiary of NSSMC through the execution of the capital increase.

2) Whereas the purpose of the Capital Increase through a Third-Party Allotment of Shares is for Sanyo Special Steel to procure funds for acquiring all the shares of Ovako, Sanyo Special Steel wishes to maintain the sound financial standing that it presently enjoys in view of large-scale capital and other investments scheduled under the current medium-term business plan and the procurement of funds by way of a Capital Increase through a Third-Party Allotment of Shares is deemed to be a more suitable method compared with other funding methods, including borrowing from banks.

3) The Amount to be Paid is in compliance with the Rules concerning Handling of Allotment of New Shares to Third Party, Etc. (issued on April 1, 2010) of the Japan Securities Dealers Association and is fair and appropriate in light of the most recent financial position and operating results of Sanyo Special Steel, and does not constitute a favorable issue price.

4) Although the Capital Increase through a Third-Party Allotment of Shares has a dilutive effect, it is recognized as leading to the enhanced corporate value and shareholder value of Sanyo Special Steel, whose benefit will

exceed the 71.8 % dilutive effect (fractions after two decimal places are rounded) of the Capital Increase through a Third-Party Allotment of Shares, and the accompanying change in the controlling shareholder. In view of these factors, at the General Shareholders' Meeting the shareholders' intention will be confirmed concerning the Capital Increase through a Third-Party Allotment of Shares based on Article 2 of the Rules concerning the Code of Corporate Conduct specified by the TSE and a proposal will be submitted for approval of the Subscription Agreement on Offered Shares with respect to the Capital Increase through a Third-Party Allotment of Shares based on Article 206-2 Paragraph 4 of the Companies Act. Moreover, an opinion of an independent committee was sought concerning the Capital Increase through a Third-Party Allotment of Shares, and such independent committee provided an opinion that the purpose and procedures are fair and appropriate.

#### 5) Other procedures required by laws and regulations have been taken.

Of the Corporate Auditors of Sanyo Special Steel, Mr. Kazuhisa Fukuda who serves as the Managing Executive Officer of NSSMC, which is the Allottee, did not participate in the deliberation at the meeting of the Board of Directors concerning the Capital Increase through a Third-Party Allotment of Shares and did not express his opinion.

### 3. Amount of Funds to be Procured, Use, and Scheduled Time of Expenditure

#### (1) Amount of funds to be procured

1) Total amount to be paid	67,235,000,000 yen
2) Estimated cost of issuance (Note)	237,000,000 yen
3) Estimated net proceeds	66,998,000,000 yen

Notes: 1. Estimated cost of issuance is exclusive of consumption tax, etc.

2. The estimated cost of issuance will include estimated registration costs and costs for preparing securities registration statements.

#### (2) Specific use of funds to be procured

Funds to be procured will be used for acquiring all the shares of Ovako.

Specific use and the scheduled time of expenditure are as follows.

Specific use	Amount (Millions of yen)	Scheduled time of expenditure
Cost for acquiring all the shares of Ovako	67,235	March 28, 2019

### 4. View on the Reasonableness of the Use of Funds

As described in “3. Amount of Funds to be Procured, Use, and Scheduled Time of Expenditure (2) Specific use of funds to be procured” above, upon execution of the Capital Increase through a Third-Party Allotment of Shares, the funds procured will be used for acquiring all the shares of Ovako. Thus, Sanyo Special Steel believes that it will contribute to the globalization and further enhancement of the competitiveness of the Group through integration of its business operations with Ovako, Europe's leading special steel manufacturer. Therefore, Sanyo Special Steel has determined that the use of funds is reasonable.

### 5. Reasonableness of the Issuance Conditions, etc.

## (1) Basis of calculation of the Amount to be Paid and details thereof

As a result of discussion and negotiation with the Allottee, the Amount to be Paid was determined to be 2,800 yen, the simple average closing price on the TSE in the past one month (from July 2, 2018 to August 1, 2018) until the business day immediately preceding the day on which the resolution was passed at the meeting of the Board of Directors (August 1, 2018).

The average closing price of ordinary shares of Sanyo Special Steel for one month is used because the average share price for a fixed period provides high objectivity as the basis of calculation since special factors such as temporary fluctuations of the share price can be eliminated and using the average price for a fixed period that is closest to the most recent market price is deemed more reasonable than the average price for the past three months or six months. The Amount to be Paid is in compliance with the Rules concerning Handling of Allotment of New Shares to Third Party, Etc. of the Japan Securities Dealers Association and represents a 4.2% discount (fractions after two decimal places are rounded; the same applies below in this section) compared with 2,924 yen, which is the closing price of common shares of Sanyo Special Steel on the TSE on August 1, 2018, the business day immediately preceding the day on which the resolution was passed at the meeting of the Board of Directors, a premium of 0.7% compared with 2,780 yen, which is the simple average closing price for the past three months until the business day immediately preceding the day on which the resolution was passed at the meeting of the Board of Directors, and a premium of 4.8% compared with 2,673 yen, which is the simple average closing price for the past six months until the business day immediately preceding the day on which the resolution was passed at the meeting of the Board of Directors, and Sanyo Special Steel determined that the Amount to be Paid is not particularly favorable for NSSMC, which is the Allottee.

Moreover, Sanyo Special Steel obtained opinions from two Corporate Auditors (one of whom is an Outside Corporate Auditor) who attended the meeting of the Board of Directors concerning the Capital Increase through a Third-Party Allotment of Shares that the basis of calculation of the Amount to be Paid is reasonable, is in compliance with the Rules concerning Handling of Allotment of New Shares to Third Party, Etc. of the Japan Securities Dealers Association, and thus the Amount to be Paid does not constitute a favorable issuance and is legal. Of the Corporate Auditors of Sanyo Special Steel, Mr. Kazuhisa Fukuda who serves as Managing Executive Officer of NSSMC, which is the Allottee, did not participate in the deliberation at the meeting of the Board of Directors concerning the Capital Increase through a Third-Party Allotment of Shares and did not express his opinion.

## (2) Basis for the judgement that the number of shares to be issued and the extent of dilutive effect are reasonable

Ordinary shares of Sanyo Special Steel to be allotted to NSSMC (24,012,500 shares) by the Capital Increase through a Third-Party Allotment of Shares account for 71.8% of the total number of outstanding ordinary shares of Sanyo Special Steel (33,424,807 shares) as of March 31, 2018 (74.8% of the total number of voting rights (320,971)) (fractions after two decimal places are rounded), thereby resulting in a dilutive effect.

However, as described in “2. Purpose of and Reasons for the Offering,” from the viewpoint of establishing a structure that enables the sustainable growth of Sanyo Special Steel and achieving medium- to long-term enhancement of corporate value, Sanyo Special Steel believes that it is indispensable for Sanyo Special Steel

to make Ovako, Europe's leading special steel manufacturer, a wholly-owned subsidiary of Sanyo Special Steel by using the funds procured by the Capital Increase through a Third-Party Allotment of Shares and for Sanyo Special Steel to become a consolidated subsidiary of NSSMC through the execution of the capital increase. Sanyo Special Steel also believes that it will lead to enhancement of corporate value and shareholder value of Sanyo Special Steel, whose benefit will exceed its dilutive effect. Therefore, Sanyo Special Steel has concluded that the extent of the dilutive effect on per share value associated with the Capital Increase through a Third-Party Allotment of Shares is reasonable.

Concerning the Capital Increase through a Third-Party Allotment of Shares, as described in “9. Matters relating to Procedures Based on the Code of Corporate Conduct” below, an opinion of an independent committee (defined in “9. Matters relating to Procedures Based on the Code of Corporate Conduct”) was sought about the fairness and appropriateness of its purpose and procedures and it issued its opinion that they are fair and appropriate.

## 6. Reasons for Selecting the Allottee, etc.

### (1) Outline of the Allottee

(1) Name	Nippon Steel & Sumitomo Metal Corporation
(2) Location	6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo
(3) Name and Title of the Representative	Kosei Shindo, Representative Director and President
(4) Description of Business Activities	1. Steelmaking and steel fabrication (Manufacturing and sales of steel products) 2. Engineering and construction 3. Chemicals 4. New materials 5. System solutions
(5) Capital	419.5 billion yen
(6) Date of Establishment	April 1, 1950
(7) Number of Outstanding Shares	950,321,402 shares
(8) Date of Fiscal Year End	March 31
(9) Number of Employees	93,557 (25,101 on a non-consolidated basis)
(10) Main Customers	Sumitomo Corporation NIPPON STEEL & SUMIKIN BUSSAN CORPORATION Metal One Corporation
(11) Main Banks	Sumitomo Mitsui Banking Corporation MUFG Bank, Ltd. Mizuho Bank Ltd.

(12)	Major Shareholders and Ownership Percentage  (Note 1)	Japan Trustee Services Bank, Ltd. (Trust Account)	4.5%
		The Master Trust Bank of Japan, Ltd. (Trust Account)	4.3%
		Nippon Life Insurance Company	2.8%
		Sumitomo Corporation	2.1%
		Japan Trustee Services Bank, Ltd. (Trust Account 5)	1.9%
		Mizuho Bank, Ltd.	1.8%
		STATE STREET BANK WEST CLIENT — TREATY 505234	1.7%
		Sumitomo Mitsui Banking Corporation	1.7%
		Meiji Yasuda Life Insurance Company	1.6%
		Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.6%
(13)	Relationship between the Parties		
	Capital Ties	Number of shares of NSSMC held by Sanyo Special Steel	577,159 shares (as of March 31, 2018)
		Number of shares of Sanyo Special Steel held by NSSMC	4,905,481 shares (as of March 31, 2018)
	Personal Connections	A Corporate Auditor of Sanyo Special Steel is NSSMC's Managing Executive Officer.	
	Business Ties	Based on a February 2006 business alliance agreement between Sanyo Special Steel and NSSMC, Sanyo Special Steel and NSSMC mutually entrust the production of steel materials to one another.	
(14)	Operating Results and Financial Position for Past 3 Years on a Consolidated Basis (Note 2)		
		(Billions of yen unless otherwise indicated)	
Fiscal Year	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net Assets	3,009.0	3,291.0	3,515.5
Total Assets	6,425.0	7,261.9	7,592.4
Net Assets per Share (yen)	3,074.28	3,340.21	3,563.80
Sales	4,907.4	4,632.8	5,668.6
Operating Income	167.7	114.2	182.3
Ordinary Income	200.9	174.5	297.5
Net Income Attributable to Owners of Parent	145.4	130.9	195.0
Net Income per Share (yen)	158.71	147.96	221.00

Dividend per Share (yen)	18.0	45.0	70.0
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Notes:

- As of March 31, 2018. Figures indicate the proportion of the number of shares held to the total number of outstanding shares (excluding treasury shares). For ownership percentages, fractions after two decimal places are rounded.
- The number of shares of Sanyo Special Steel held by the Allottee includes the shares held by its consolidated subsidiaries Nippon Steel & Sumikin Logistics Co., Ltd. (voting rights ownership ratio of the Allottee: 100.0%) and NIPPON STEEL & SUMIKIN TEXENG CO., LTD. (voting rights ownership ratio of the Allottee: 100.0%) as indirect ownership.

\* NSSMC, which is the Allottee, is listed on the TSE First Section. Thus, Sanyo Special Steel referred to the Corporate Governance Report dated July 6, 2018 submitted by NSSMC to the TSE on the website of the TSE and confirmed the description in “IV. 2. Basic Views on Eliminating Anti-Social Forces” of the said report. It states: NSSMC provides, in “Corporate Philosophy of the Nippon Steel & Sumitomo Metal Corporation Group,” that the Group continues to emphasize the importance of integrity and reliability, and provides in the “Code of Conduct of the Nippon Steel Sumitomo Metal Corporation Group” that the Group will not have any relationships of any kind with anti-social forces or organizations that threaten order and safety in the civil society, and will take firm action against all unreasonable demands. NSSMC has established “Rules that Prohibit any Relationships with Anti-social Forces and Prevent Damage Caused by Them,” and internal controls thereunder. Specifically, NSSMC defines the role of each relevant division and communication systems between them by establishing a division, a general manager, and personnel in charge of public relations, maintains regular contacts with police departments and other relevant authorities, and seeks to promote educational activities through information sharing within the Group and internal seminars. Based on the above, Sanyo Special Steel has determined that NSSMC and its executives are not individuals, corporations, or other organizations (the “specific organizations, etc.”) that attempt to receive financial benefit by resorting to violence or force, through fraud or other criminal conduct and they do not have any relationship with the specific organizations, etc.

(2) Reasons for Selecting the Allottee

Please refer to “2. Purpose of and Reasons for the Offering” above.

(3) Policy of Shareholding of the Allottee

Sanyo Special Steel has confirmed verbally NSSMC’s intention to hold the ordinary shares of Sanyo Special Steel NSSMC will acquire in the Capital Increase through a Third-Party Allotment of Shares for a long time.

Sanyo Special Steel expects to receive written confirmation from NSSMC that it will immediately report the details to Sanyo Special Steel if it transfers all or a part of said shares within two years after the allotment. Further, Sanyo Special Steel expects to receive NSSMC’s consent to Sanyo Special Steel reporting the contents of such share transfer report to the TSE and to the contents of the report being made publicly available.

(4) Confirmation of the Existence of Assets Required for Payment by the Allottee

On the basis of the financial statements presented in the most recent securities report of NSSMC (for the year ended March 31, 2018) Sanyo Special Steel has confirmed that NSSMC has sufficient cash and deposits and other current assets required for the payment and has determined that there is no problem with the payment.

#### 7. Major Shareholders and Ownership Percentage after the Capital Increase through a Third-Party Allotment of Shares

Before the Capital Increase through a Third-Party Allotment of Shares (March 31, 2018)		After the Capital Increase through a Third-Party Allotment of Shares
Nippon Steel & Sumitomo Metal Corporation	15.1%	Nippon Steel & Sumitomo Metal Corporation
Sanyo Special Steel Kyoeikai Association	6.9%	Sanyo Special Steel Kyoeikai Association
NSK Ltd.	4.6%	NSK Ltd.
Sumitomo Mitsui Banking Corporation	3.5%	Sumitomo Mitsui Banking Corporation
Japan Trustee Services Bank, Ltd. (Trust Account)	2.8%	Japan Trustee Services Bank, Ltd. (Trust Account)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.6%	The Master Trust Bank of Japan, Ltd. (Trust Account)
Mizuho Bank, Ltd.	2.3%	Mizuho Bank, Ltd.
NORTHERN TRUST CO. (AVFC) RE-HCR00	2.1%	NORTHERN TRUST CO. (AVFC) RE-HCR00
Marubeni-Itochu Steel Inc.	1.9%	Marubeni-Itochu Steel Inc.
DFA INTL SMALL CAP VALUE PORTFOLIO	1.9%	DFA INTL SMALL CAP VALUE PORTFOLIO

Note: For ownership percentages, figures indicate the proportion of the number of shares held to the total number of outstanding shares (excluding treasury shares). Fractions after two decimal places are rounded.

#### 8. Future Outlook

The effect of this transaction on the financial results of Sanyo Special Steel is currently being investigated. If it becomes necessary to revise the financial forecasts or if any matter arises that should be made public, Sanyo Special Steel will disclose such information without delay.

#### 9. Matters relating to Procedures Based on the Code of Corporate Conduct

The dilutive effect by the Capital Increase through a Third-Party Allotment of Shares is 71.8% (fractions after two decimal places are rounded), and the accompanying change in the controlling shareholder. Therefore, Sanyo Special Steel is required to receive the opinion of a body that has a specific degree of independence from Sanyo Special Steel and its management or confirm the intention of shareholders regarding such allotment as specified in

Rule 432 of the Securities Listing Regulations of the TSE. Thus, Sanyo Special Steel will confirm the intention of shareholders regarding the Capital Increase through a Third-Party Allotment of Shares at the General Shareholders' Meeting. As described above, in the Capital Increase through a Third-Party Allotment of Shares NSSMC will be a special subscriber as specified in Article 206-2 Paragraph 1 of the Companies Act, and therefore, approval by the general shareholders' meeting is required if a shareholder(s) holding one-tenth or more of the votes of all shareholders provides notice that the shareholder is against subscription of offered shares by a special subscriber (Article 206-2, Paragraph 4 of the Companies Act). However, in view of the importance of the Capital Increase through a Third-Party Allotment of Shares, Sanyo Special Steel plans to confirm the intention of shareholders concerning the Capital Increase through a Third-Party Allotment of Shares regardless of such notice of objection.

Sanyo Special Steel selected Mr. Masatoshi Ohara (lawyer, partner, Kikkawa Law Offices), Mr. Hisayuki Matsumoto (certified public accountant/certified tax accountant, Stand by C Inc.), and Mr. Takashi Kobayashi who is an Outside Director of Sanyo Special Steel as independent individuals who have no interest in either Sanyo Special Steel or NSSMC, which is the Allottee. (Sanyo Special Steel consulted its legal advisor and selected the two external experts because it is expected that Sanyo Special Steel can obtain appropriate opinions from them in view of their extensive track records and knowledge concerning similar cases in their respective careers as a lawyer and a certified public accountant/certified tax accountant.) Sanyo Special Steel sought an opinion of the independent committee consisting of these three individuals (the "Independent Committee" chaired by Mr. Masatoshi Ohara) concerning the Capital Increase through a Third-Party Allotment of Shares and received its opinion dated August 1, 2018 that the purpose and procedures are fair and appropriate. The outline of its opinion is as follows.

(Outline of the opinion of the Independent Committee)

In considering the Capital Increase through a Third-Party Allotment of Shares, Sanyo Special Steel consulted the Independent Committee about 1) whether the Conversion into a Subsidiary will contribute to enhancement of the corporate value of Sanyo Special Steel, 2) whether the Conversion into a Subsidiary will be disadvantageous to shareholders other than NSSMC, 3) whether the procedures in the process of negotiations concerning the Conversion into a Subsidiary are fair and the value is appropriate, and 4) other matters the Independent Committee considers necessary concerning the Conversion into a Subsidiary. As a result, the Independent Committee submitted a report dated August 1, 2018 whose outline is described below to the Board of Directors of Sanyo Special Steel.

1) Whether the Conversion into a Subsidiary will contribute to the enhancement of the corporate value of Sanyo Special Steel

(a) In view of the objective circumstances of NSSMC, such as business activities, scale of business, and financial position, Sanyo Special Steel's becoming a subsidiary of NSSMC is expected to lead to synergies, including expansion of transactions entrusting production between Sanyo Special Steel and NSSMC, joint procurement and improvement in efficiency of logistics in cooperation with NSSMC, and integration of production of certain types of products in which the respective parties excel. Moreover, no special circumstances have been found that raise particular doubts about the reasonableness of Sanyo Special Steel's argument that joining the NSSMC Group will enable it to establish a strong corporate structure by

strengthening the business foundation and achieve sustainable growth and stable management over the medium- to long-term, and therefore, it is recognized that the Conversion into a Subsidiary has an aspect that would contribute to the enhancement of the corporate value of Sanyo Special Steel.

(b) The synergies expected by Sanyo Special Steel are concrete, no particular unreasonable points are recognized in their content, and the Conversion into a Subsidiary can be regarded as an effective and appropriate measure for the current issues of Sanyo Special Steel and Ovako. Moreover, in view of the fact that Sanyo Special Steel is considering an actual policy for business operation after converting Ovako into a subsidiary, such as formulation of a concrete business plan incorporating the currently expected synergies, it is recognized that acquiring the shares of Ovako and making Ovako into a wholly-owned subsidiary of Sanyo Special Steel has an aspect that would contribute to the enhancement of the corporate value of Sanyo Special Steel.

(c) In general terms, if NSSMC makes both Sanyo Special Steel and Ovako into its wholly-owned subsidiaries, decision-making by NSSMC would be necessary for formulation and execution of concrete measures (by the two companies). Taking into consideration the relationship between Sanyo Special Steel and Ovako, there is greater similarity in terms of business fields than in the relationship between NSSMC and Ovako and decision-making by NSSMC would require a certain amount of procedures and time as NSSMC is a listed company, it may be possible, generally speaking, that NSSMC making both Sanyo Special Steel and Ovako into its wholly-owned subsidiaries would make it difficult to enjoy synergies by flexible and integrated business operations of Sanyo Special Steel and Ovako. Therefore, the use of the funds procured by the Conversion into a Subsidiary for the purpose of acquiring the shares of Ovako is reasonable with a view to benefitting from the synergies with the business of Ovako. In addition, it is recognized as having an aspect that contributes to the enhancement of the corporate value of Sanyo Special Steel. Thus, Sanyo Special Steel's view that the Conversion into a Subsidiary will contribute to enhancement of its corporate value is recognized as reasonable.

For the above-stated reasons, in the opinion of the Independent Committee, the Conversion into a Subsidiary will contribute to the enhancement of the corporate value of Sanyo Special Steel.

## 2) Whether the Conversion into a Subsidiary will be disadvantageous to shareholders other than NSSMC

In light of the synergies from Sanyo Special Steel becoming a subsidiary of NSSMC and the synergies from Sanyo Special Steel making Ovako into a subsidiary, the Conversion into a Subsidiary is recognized as contributing to the enhancement of the corporate value of Sanyo Special Steel. In addition, Sanyo Special Steel has referred to legal advice from an independent third party and the report by the Independent Committee about the Conversion into a Subsidiary and no particular circumstances have been found that raise any doubt about the fairness of the procedures in the process of negotiations concerning the Conversion into a Subsidiary and the appropriateness of the consideration. Therefore, it is recognized that the Conversion into a Subsidiary is not disadvantageous to shareholders other than NSSMC.

For the above-stated reasons, in the opinion of the Independent Committee, the Conversion into a Subsidiary is not disadvantageous to shareholders other than NSSMC.

3) Whether procedures in the process of negotiations concerning the Conversion into a Subsidiary are fair and the consideration is appropriate

(a) As reasonable measures (procedures) to reduce conflict of interest and eliminate arbitrary decision-making concerning the Conversion into a Subsidiary, Sanyo Special Steel engaged in detailed and extensive consideration and deliberation in its project team and at meetings of an a joint evaluation committee jointly with NSSMC. At the same time, in order to ensure fairness of overall procedures and transaction conditions, Sanyo Special Steel appointed Chuo Sogo Law Office, P. C., an independent third party, as its legal affairs advisor and received extensive advice on legal issues concerning the Conversion into a Subsidiary in the course of procedures. Furthermore, in order to further clarify the fairness of procedures concerning the Conversion into a Subsidiary, Sanyo Special Steel established the Independent Committee, consisting solely of independent parties, to obtain a report on matters regarding which it sought consultation. Taking these facts into consideration, it is recognized that fairness of procedures in the process of negotiations concerning the Conversion into a Subsidiary are ensured. Sanyo Special Steel intends to implement procedures to confirm the intention of shareholders by resolution of the general shareholders' meeting concerning the Conversion into a Subsidiary in light of Rule 432 of the Securities Listing Regulations. If such procedures are actually implemented, it is deemed that fairness of the Conversion into a Subsidiary will be more clearly ensured.

(b) No unreasonableness was found in the process of determination of the issue price (consideration) and the reasonableness of the agreed issue price (consideration) itself is also recognized; therefore, it is recognized that the consideration for the Conversion into a Subsidiary is appropriate.

For the above-stated reasons, in the opinion of the Independent Committee, the procedures in the process of negotiations concerning the Conversion into a Subsidiary are fair and the consideration for the Conversion into a Subsidiary is appropriate.

4) Other matters the Third-Party Committee considers necessary concerning the Conversion into a Subsidiary

Regarding a matter the Third-Party Committee considers necessary to examine, namely, whether procedures and the process for determining the price of a share of Ovako are reasonable, in the opinion of the Third-Party Committee there are no particular unreasonable points about the said procedures and process.

## 10. Financial Results and Equity Finance for the Past 3 Years

### (1) Financial Results for the Past 3 Years (Consolidated Basis)

(Billions of yen unless otherwise indicated)

	FY2015	FY2016	FY2017
Sales	149.1	138.6	157.4
Operating Income	12.1	11.6	10.9
Ordinary Income	11.5	11.7	10.6
Net Income Attributable to Owners of Parent	7.4	7.7	7.0
Net Income per Share (yen)	230.01	241.47	218.34
Dividend per Share (yen)	12.0	12.5	-

Net Assets per Share (yen)	3,483.47	3,796.79	3,960.99
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Note: A reverse share split making every 5 shares into 1 share was implemented with the effective date on October 1, 2017. In line with the reverse share split, net income per share and net assets per share are calculated, assuming that the reverse share split was executed at the beginning of FY2015 and at the beginning of FY2016.

For dividend per share, the figures before taking the reverse share split into consideration are presented for FY2015 and FY2016 and the total annual dividend is not presented for FY2017 ("-" is indicated.) The second quarter dividend per share is 6.70 yen and the year-end dividend per share is 25.00 yen for FY2017.

#### (2) Current Number of Outstanding Shares and Number of Dilutive Securities (as of March 31, 2018)

	Number of Shares (Securities)	Proportion to the total number of outstanding shares
Number of outstanding shares	33,424,807 shares	100%
Number of dilutive securities at current conversion price (exercise price)	-	-
Number of dilutive securities at minimum conversion price (exercise price)	-	-
Number of dilutive securities at maximum conversion price (exercise price)	-	-

#### (3) Recent Stock Prices

##### 1) Stock Prices in the Past 3 Years

	FY2015	FY2016	FY2017
Opening	2,525 yen	2,560 yen	2,980 yen
High	3,210 yen	3,315 yen	3,430 yen
Low	2,210 yen	2,165 yen	2,242 yen
Closing	2,570 yen	2,955 yen	2,670 yen

Note: A reverse share split making every 5 shares into 1 share was implemented with the effective date on October 1, 2017. The above figures before October 1, 2017 are stock prices calculated, assuming that the reverse share split had been executed.

##### 2) Stock Prices in the Past 6 Months

	February	March	April	May	June	July
Opening	2,783 yen	2,350 yen	2,685 yen	2,675 yen	2,794 yen	2,651 yen
High	2,808 yen	2,777 yen	2,834 yen	2,925 yen	2,880 yen	2,946 yen

Low	2,340 yen	2,242 yen	2,618 yen	2,672 yen	2,535 yen	2,617 yen
Closing	2,369 yen	2,670 yen	2,789 yen	2,799 yen	2,645 yen	2,892 yen

3) Stock Price on the Business Day Immediately Preceding the Date of the Resolution on Issuance

	August 1, 2018
Opening	2,917 yen
High	2,927 yen
Low	2,880 yen
Closing	2,924 yen

(4) Equity Finance in the Past 3 Years

Not applicable

11. Terms and Conditions of Issuance

(1)	Number of shares to be issued	Number of shares to be issued: 24,012,500 shares of ordinary shares
(2)	Issue price	2,800 yen per share
(3)	Total issue prices	67,235,000,000 yen
(4)	Amount to be included in capital	1,400 yen per share
(5)	Total amount to be included in capital	33,617,500,000 yen
(6)	Method of offering	Third-party allotment
(7)	Application date	August 2, 2018
(8)	Issue date (Payment date)	From December 1, 2018 to November 30, 2019
(9)	Allottee and number of shares to be allotted	NSSMC: 24,012,500 shares
(10)	Other	Conditions for the Capital Increase through a Third-Party Allotment of Shares include the taking effect of a securities registration statement that will be filed pursuant to the Financial Instruments and Exchange Act, obtaining approval from competition authorities in Japan and overseas regarding the Conversion into a Subsidiary, and obtaining approval at the General Shareholders' Meeting of Sanyo Special Steel.

## II. Change in Parent Company

### 1. Background to the Change

All the shares to be issued (24,012,500 shares) for the Capital Increase through a Third-Party Allotment of Shares will be allotted to NSSMC. As a result, it is expected that a change in the parent company will occur as described below.

### 2. Outline of Shareholder to be Changed

#### (1) Shareholder that will newly become the parent company

Name: Nippon Steel & Sumitomo Metal Corporation

For the outline, such as the location, please refer to “6. Reasons for Selecting the Allottee, etc. (1) Outline of the Allottee” under “I. Issuance of New Shares through a Third-Party Allotment” above.

### 3. Number of Voting Rights Held by the Said Shareholder and Voting Rights Ownership Ratios Before and After the Change

	Attribute	Number of voting rights (Voting rights ownership ratio)			Rank in major shareholders
		Direct holding	Indirect holding	Total	
Before change	Largest shareholder among major shareholders	48,513 (15.1%)	541 (0.2%)	49,054 (15.3%)	First
After change	Parent company and the largest shareholder among major shareholders	288,638 (51.4%)	541 (0.1%)	289,179 (51.5%)	First

Notes: 1.The voting rights ownership ratio before the change was calculated by using the number of voting rights of all shareholders as of March 31, 2018 (320,971) as the denominator and the voting rights ownership ratio after the change was calculated by using the number of voting rights (561,096), which is the sum of the number of voting rights of all shareholders as of March 31, 2018 (320,971) and the increase in the number of voting rights in line with the Capital Increase through a Third-Party Allotment of Shares (240,125), as the denominator. For voting rights ownership ratios, fractions after two decimal places are rounded.

2. The number of shares constituting one unit of shares is 100 shares.

### 4. Date on which the Change will Occur

From December 1, 2018 to November 30, 2019 (date of payment for the Capital Increase through a Third-Party Allotment of Shares)

## 5. Future Outlook

For NSSMC's policy on shareholding, please refer to "6. Reasons for Selecting the Allottee, etc. (3) Policy of Shareholding of the Allottee" under "I. Issuance of New Shares through a Third-Party Allotment" above.

## 6. Change in Non-listed Parent Company, etc. to be Disclosed

Not applicable

Please note that the official text of this document has been prepared in Japanese. To the extent there is any discrepancy between the English translation and original Japanese version, please refer to the Japanese version.